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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 3936

INFO AMEMBASSY BANGKOK

AMEMBASSY KUALA LUMPUR

AMEMBASSY SINGAPORE

AMEMBASSY JAKARTA

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S E C R E T SECTION 1 OF 3 MANILA 6410

E.O. 11652: GDS

TAGS: EGEN, PGOV, PFOR, MILI, RP

SUBJECT: QUARTERLY ASSESSMENT FOR THE PHILIPPINES

REF: MANILA 2234

SUMMARY: DURING THE THREE MONTHS UNDER REVIEW IN THIS ASSESSMENT, FOCUS OF ATTENTION IN THE PHILIPPINES SHIFTED FROM DOMESTIC TO INTERNATIONAL EVENTS. DOMESTIC POLITICAL SCENE REMAINED QUIESCENT, AND EFFORTS BY MARCOS TO REACH UNDERSTANDINGS WITH HIS POLITICAL OPPONENTS WERE AT LOW EBB. ALTHOUGH SEVERAL TRIAL BALLOONS WERE FLOATED CONCERNING POSSIBILITY OF NEW REFERENDUM THIS SUMMER, NO RPT NO CONCRETE PROPOSALS HAVE BEEN MADE. CONSOLIDATION OF CENTRAL GOVERNMENT CONTROL OVER LOCAL GOVERNMENTAL ACTIVITIES PROCEEDS APACE, WITH MAJOR STEPS BEING MADE

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ON CONSOLIDATION OF POLICE FORCES. ON THE ECONOMIC SCENE

PRIME WORRIES HAVE BEEN UNEMPLOYMENT, ESSENTIAL COMMODITY SUPPLIES AND INFLATION. GOVERNMENTAL EFFORTS TO BLUNT EFFECTS OF WORLD PRICE MOVEMENTS HAVE BEEN CONTINUOUS EVEN THOUGH OF LIMITED EFFECT, AND A DECISION HAS CLEARLY BEEN MADE TO RIDE IT OUT. WITHOUT NEW EXTERNAL SHOCKS, THIS MAKES SENSE, AND THE RATE OF INFLATION SHOULD MODERATE. THE CONSUMER PRICE INDEX ROSE AT AN ANNUAL RATE OF 30 TO 40 PERCENT. TO EAST THE EFFECT OF THIS TREND, GOVERNMENT INTRODUCED A WAGE SUPPLEMENT FOR LOWEST SALARY WORKS AND ISSUED NEW LABOR CODE WHICH DESIGNED AMELIORATE SOME INDUSTRIAL LABOR PROBLEMS. ON TRADE SIDE PHILIPPINE EXPORTS CONTINUE BULLISH AND INVISIBLE EARNINGS, BOOSTED BY TOURISM RECEIPTS, YIELDED AN UNEXPECTEDLY FAVORABLE FOREIGN EXCHANGE BALANCE DURING THIS QUARTER, EVEN THOUGH A DEFICIT IS EXPECTED IN SUCCEEDING QUARTERS DUE TO INCREASED IMPORT BILLS. A MANAGEABLE DEFICIT IN RICE SUPPLIES IS PROJECTED AND SUGAR PROSPECTS HAVE IMPROVED. MOST CONCENTRATED PRESIDENTIAL EFFORT DURING PERIOD HAS BEEN DIRECTED TO PROBLEMS OF MUSLIM MINORITIES, FOLLOWING ISLAMIC REACTION, LED BY MALAYSIA, TO DESTRUCTION AND LOSS OF LIFE IN JOLO CITY. MARCOS, WITH EYE ON ISLAMIC FOREIGN MINISTERS' MEETING SCHEDULED KUALA LUMPUR IN JUNE, DESPERATELY COURTING ISLAMIC STATES TO PREVENT RISK OF ARAB OIL BOYCOTT AGAINST PHILIPPINES. HE HAS BEEN REBUFFED IN EFFORTS DISCUSS MUSLIM PROBLEM WITH MALAYSIAN PRIME MINISTER RAZAK, BUT, AT END OF MAY, IS IN MENADO TRYING TO CONVINCE PRESIDENT SUHARTO OF INDONESIA TO INTERCEDE WITH RAZAK. AS PART OF MANEUVERS ASSOCIATED WITH THIS EFFORT, AND WHILE DETERRING ARMED FORCES FROM REPETITION JOLO CAMPAIGN, MARCOS HAS ANNOUNCED INCREASE IN ARMED FORCES STRENGTH AND RE-EMPHASIZED SELF-RELIANCE. AT SAME TIME, HE IS MOVING TO KEEP PACE WITH MALAYSIA IN ESTABLISHING DIPLOMATIC RELATIONS WITH PEKING AND MOSCOW. THESE MOVES, WHILE CURRENTLY FORENSIC, HAVE CAUSED SHARP REPERCUSSIONS IN TAIPEI AND PORTEND GRC-GOP CRISIS IN NEXT QUARTER. RELATIONS WITH U.S. CONTINUE SMOOTH, AND PROGRESS IS BEING MADE TO BRIDGE CONSEQUENCES OF LAPSE LAUREL-LANGLEY TRADE AGREEMENT ON JULY 3. PRIMARY OBSTACLE TO PROGRESS AT THIS TIME IS FAILURE U.S. CONGRESS TO COMPLETE ACTION ON TRADE REFORM ACT.

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1. INTERNAL POLITICS. AS OF NOW, THERE IS NO INDICATION THAT MARCOS DESIRES TO OR FEELS THE NEED OF ABANDONING MARTIAL LAW. HE EVIDENTLY REGARDS THE CONTROLS AVAILABLE UNDER THE PRESENT SYSTEM FULLY WARRANT ITS INDEFINITE RETENTION. ALTHOUGH THE PRESIDENT'S RECENT TRAVELS IN THE PROVINCES AND NOW TO INDONESIA SUGGEST A GREATLY HEIGHTENED SENSE OF SECURITY, THEY DO NOT APPEAR TO AUGUR ANY SIGNIFICANT CHANGE IN HIS CURRENT REGIME. PREOCCUPATION

WITH COMMODITY SUPPLIES AND PRICES AND RESOLVING THE MUSLIM DISPUTE HAVE TENDED TO DISTRACT THE GOVERNMENT FROM LONGER RANGE ACTIVITIES.

2. LITTLE MOVEMENT HAS OCCURRED IN THE LOCAL POLITICAL SCENE IN THE PAST FEW MONTHS. A REFERENDUM TO STREAMLINE LOCAL GOVERNMENT AND INTRODUCE A RECALL CONCEPT HAS PERIODICALLY BEEN RUMORED BUT TO DATE HAS STILL NOT BEEN SET. PROSPECTS FOR AN INTERIM NATIONAL ASSEMBLY OR ADVISORY COUNCIL HAVE FADED AT LEAST TEMPORARILY SINCE THE PRESIDENT FEELS HE CANNOT CONTROL IT AT THIS TIME. DESPITE LITTLE DRAMATIC EVIDENCE OF CENTRAL GOVERNMENT ACTIVITY, THE REGIME IS WORKING GRADUALLY TO EXTEND ITS INFLUENCE AND CONTROL OVER PROVINCIAL AND LOCAL GOVERNMENT ACTIVITIES. THE PACE OF CHANGE IS DICTATED MORE BY SCARCITY OF RESOURCES AND PLANS THAN RESISTANCE OF LOCAL AUTHORITIES WHO UNDERSTAND THE REALITIES OF POWER.

3. THE APPARENT DECLINE IN GOVERNMENTAL MOMENTUM MAY HAVE CONTRIBUTED TO THE FADING OF NEW NEW SOCIETY IMAGE. AT THE SAME TIME, REPORTS OF CORRUPTION ON THE PART OF THE NEW SOCIETY REPRESENTATIVES AT LOW AND HIGH LEVELS ARE GROWING. IN HIS RECENT SHUFFLE OF SEVERAL CABINET POSITIONS, THE PRESIDENT MAY HAVE HELPED BOLSTER THE IMAGE TEMPORARILY BUT PERFORMANCE AND A GREATER SENSE OF PURPOSE ARE BASIC REQUIREMENTS FOR A FUNDAMENTAL IMPROVEMENT OF IMAGE.

4. SENSING GOVERNMENTAL SLACK, AND STIMULATED BY WISHFUL THINKING, INCIPIENT OPPOSITION LED BY SENATOR SALONGA HAS BEEN DEVELOPING LOW KEY CRITICISM OF THE REGIME AND OF U.S. SUPPORT OF THAT REGIME. SALONGA'S ACTIVITIES ARE AMATEURISH, ARE KNOWN TO THE GOVERNMENT BUT MAY BE BEGINNING TO REACH WIDER CIRCLES ESPECIALLY THROUGH VEHICLE OF CHURCH WHICH
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CONTINUES TO EMERGE AS MOST WIDELY RESPECTED OPPOSITION FOCUS. MILITARY-CHURCH LIAISON COMMITTEES ESTABLISHED BY THE GOVERNMENT SERVE AS BUFFERS BETWEEN REGIME AND ITS CHURCH CRITICS. THEY HAVE NOT, HOWEVER, DETERRED LIBERAL CHURCH ELEMENTS FROM PURSUING "UNIVERSAL JUSTICE" AND THE CHURCH IS POSING AN INCREASING DILEMMA FOR A STABILITY-MINDED GOVERNMENT.

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5. EMPHASIS ON STABILITY AND INTERNAL SECURITY ADVANCED WITH THE GOVERNMENT'S PLAN TO INTERGRATE ALL POLICE INTO A NATIONAL POLICE FORCE UNDER THE PHILIPPINE CONSTABULARY. THE TASK OF INTEGRATING AND TRAINING MOTLEY, VARIEGATED LOCAL POLICE FORCES WILL BE TIME CONSUMING BUT A PILOT PROJECT HAS BEEN LAUNCHED IN MANILA WHICH IS ALREADY BEING APPLIED SELECTIVELY TO THE PROVINCES. IT IS CLEAR THAT THE INTEGRATION OF THE POLICE FORCES WILL BE ACCOMPANIED BY THEIR INCREASING MILITARIZATION.

6. THE GREATEST POLITICAL PROBLEM FACING PRESIDENT CONTINUES TO BE MUSLIM DISSIDENCE. DESPITE DECLINE IN FIGHTING SINCE THE EARLY FEBRUARY JOLO HOLOCAUST AND CONTINUED TRICKLE OF SURRENDEREES, PROSPECTS FOR SETTLEMENT ARE REMOTE. THE PRESIDENT CONTINUES TO TREAT THE PROBLEM WITH TRADITIONAL TACTICS OF CARROT AND STICK, AND
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DIVIDE AND RULE. ALTHOUGH HE HAS GIVEN MASSIVE PUBLICITY IN RECENT MONTHS TO ALLEGED GOVERNMENT EFFORTS TO IMPROVE

THE MUSLIM'S LOT, LITTLE IN FACT HAS BEEN DONE. THE MUSLIM'S CONVICTION OF GOVERNMENTAL INSINCERITY HAS LED TO RENEWED TENSIONS IN THE LANA O AREA AND BOLSTERED THE DETERMINATION OF MUSLIM REBELS TO CONTINUE TO APPEARL TO INTERNATIONAL MUSLIM BROTHERHOOD FOR SUPPORT FOR SECESSION OR GENUINE AUTONOMY. THE GOVERNMENT MAY NOW BE PREPARED TO PAY LIP SERVICE TO AUTONOMY BUT IN MANNER LIKELY TO BE UNACCEPTABLE TO REBELS. TO REMIND FELLOW MUSLIMS OF CONTINUED NEED FOR SUPPORT, THE REBELS ARE WIDELY BELIEVED TO BE PLANNING DRAMATIC ATTACKS ON GOVERNMENT FORCES JUST PRIOR TO THE ISLAMIC FOREIGN MINISTER'S CONFERENCE IN JUNE.

7. INTERNAL ECONOMY. THE ECONOMY CONTINUED THROUGH THE QUARTER TO PURSUE AN UPWARD COURSE BUOYED BY A BETTER THAN EXPECTED FOREIGN TRADE PERFORMANCE AND BY SUSTAINED DEMAND FOR DOMESTIC GOODS AND SERVICES. NEGATIVE FACTORS CONTINUED TO BE UNEMPLOYMENT AND THE ASSAULT ON REAL URBAN INCOME REPRESENTED BY INFLATION.

8. GOVERNMENT EFFORTS TO DEAL WITH INFLATION WALLOWED IN THE GLOBAL AND REGIONAL FLOOD, WITH THE RATE IN THE PHILIPPINES RUNNING SOMEWHAT ABOVE THE REGIONAL AVERAGE OF AROUND 30 PERCENT. TO LIMIT THE EXTERNAL PRICE PRESSURES THE GOVERNMENT CONTINUED TO SOP UP FOREIGN EXCHANGE SURPLUSES AND TO RESTRAIN CREDIT BUT CONSCIOUSLY HAD DECIDED TO RIDE OUT THE STORM AND, ESPECIALLY IN THE AGRICULTURAL SECTOR, TO LET THE RISING PRICE TREND ACT AS A PRODUCTION INCENTIVE.

9. RIDING THE WAVE OF HIGH AND RISING PRICES FOR AGRICULTRUAL GOODS, THE COUNTRYSIDE REFLECTED AN UNACCUSTOMED BUOYANCY, ENJOYING PERHAPS MORE PROSPERITY THAN IN ANY RECENT YEAR. THE CONSUMER PRICE INDEX, LARGELY REFLECTING URBAN CONDITIONS, ROSE AT AN ANNUALIZED RATE OF 36-40 PERCENT, BUT SHOWED SIGNS OF EASING TOWARD THE END OF THE QUARTER. PARTIALLY OFFSETTING THE EFFECT ON URBAN WORKERS, THE PRESIDENT AUTHORIZED A COST-OF-LIVING ALLOWANCE FOR THE LOWEST SALARIED WORKERS, AND JAWBONED PRIVATE INDUSTRIES INTO SIMILAR WAGE ADJUSTMENTS. A NEW LABOR CODE WAS ISSUED AND COULD HELP AMELIORATE SOME INDUSTRIAL LABOR

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PROBLEMS BY PROVIDING THE FRAMEWORK FOR EVENTUAL INDUSTRY-WIDE WAGE POLICIES.

10. DESPITE CONCERN OVER INFLATION THE GENERAL OUTLOOK FOR THE ECONOMY REMAINS ENCOURAGING WITH FOREIGN INVESTMENT PICKING UP AND SEVERAL IMPORTANT INFRASTRUCTURE PROJECTS MOVING AHEAD. ON THE BALANCE OF PAYMENTS, PRICES REMAINED HIGH AND IN A FEW CASES ROSE, OFFSETTING AN EXPECTED RISE IN IMPORT COSTS, AND THE PHILIPPINE TRADE ACCOUNT THUS

SHOWED A MUCH SMALLER DEFICIT THAN EARLIER EXPECTED. CURRENTLY FAVORABLE TERMS OF TRADE WERE EXPECTED TO SLIP LATER IN THE YEAR. INVISIBLE RECEIPTS, AUGMENTED BY RISING TOURISM, YIELDED LARGER THAN EXPECTED CURRENT ACCOUNT SURPLUSES AND SUGGESTED THAT EARLIER PESSIMISM RE THE YEAR'S OVERALL B/P PERFORMANCE HAD BEEN EXCESSIVE, EVEN THOUGH AN OVERALL DEFICIT STILL IS PREDICTED FOR THE YEAR.

11. A PTENTIAL SOURCE OF POLITICAL STIRRINGS REMAINS THE ESSENTIAL COMMODITY SUPPLY AND PRICE SITUATION. MARCOS HAS PRESSED ON GRAINS AUTHORITIES, FLAYING AGRICULTURE SECRETARY TANCO IN PUBLIC APPARENTLY PRELIMINARY TO KEEPING HIM ON. MARCOS ALSO TOOK ACTION ON SUGAR TO BOOST LOCAL SUPPLIES, UPSETTING THE U.S. AND PHILIPPINE TRADE AND RECANING WHEN HE SAW THE MARKET MISCHIEF BEING DONE. PROSPECTS FOR BOTH RICE AND SUGAR APPEARED BRIGHTER WITH EARLY ONSET OF THE RAINY SEASON.

12. MILITARY. THE INTERNAL FLAP WHICH RESULTED FROM THE DESTRUCTION OF JOLO CITY BROUGHT THE FOCUS OF CONSIDERABLE ATTENTION UPON THE MILITARY PROBLEMS WHICH THE GOVERNMENT IS HAVING WITH THE MUSLIM REBELS. IT ALSO WAS THE OCCASION FOR A RE-EXAMINATION IN DEPTH OF THE GOVERNMENT'S MILITARY POLICY TOWARDS THE REBELS. WHEN THE ARAB OIL PRODUCERS MADE CLEAR THAT THEIR EXPORT POLICY TOWARDS THE PHILIPPINES WOULD DEPEND IN LARGE MEASURE ON THE ABSENCE OF FURTHER JOLO-TYPE MILITARY ENCOUNTERS, MARCOS WAS HARD PUT TO ACCEPT THE GENERAL STAFF'S REQUESTS TO CONDUCT AN ALL-OUT PUNITIVE CAMPAIGN IN THE SULUS. HOWEVER, BECAUSE OF HIS CONTINUING NEED FOR ACTIVE SUPPORT OF THE MILITARY IN ADMINISTERING HIS MARTIAL LAW REGIME, HE COULD
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NOT AFFORD TO REBUFF HIS MILITARY ADVISERS BRUSQUELY.

13. HIS RESPONSE, THEREFORE, HAS BEEN A TYPICALLY PHILIPPINE COMPROMISE. HE HAS LET THE MILITARY OPERATIONS AGAINST THE MUSLIM REBELS CONTINUE, BUT AT A REDUCED LEVEL AND AS INCONSPICUOUSLY AS POSSIBLE. AT THE SAME TIME, HE HAS, AS CONSPICUOUSLY AS POSSIBLE, ACCEDED TO MILITARY REQUESTS FOR GREATER RECRUITMENT, BETTER EQUIPMENT, AND INCREASED RESPONSIBILITIES.

14. HE HAS, AS REPORTED ABOVE, MOVED TO GIVE THE MILITARY A SIGNIFICANT MEASURE OF CONTROL OVER THE POLICE. HE HAS ALSO ANNOUNCED HIS INTENTION TO CONSOLIDATE MILITARY AND PARAMILITARY FORCES INTO THE AFP (TO INCLUDE POLICE, RESERVES, CADETS, ETC.) AND TO INCREASE THE REGUALR MILITARY SERVICES BY APPROXIMATELY 10 PERCENT. THE

RESULTING TOTAL SHOULD NUMBER SOME 256,000 BY END 1975.

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HE HAS PERMITTED THE VARIOUS SERVICES TO ENGAGE IN SHOPPING EXPEDITIONS WITH PURVEYORS OF AIRCRAFT, ARTILLERY, ARMOR, AND OTHER LETHAL TOYS AND HAS PERMITTED THEM TO MAKE LIMITED PURCHASES. HE HAS CONTINUED HIS PROGRAM OF PROMOTIONS, AWARDS, AND CEREMONIES TO HONOR THE SERVICES AND HAS ANNOUNCED AN ACTIVE PARTICIPATION OF BOTH THE ACTIVE SERVICES AND VETERANS IN THE ECONOMIC DEVELOPMENT OF THE COUNTRY. IN SHORT, HE CONTINUES TO ENHANCE THE STATUS OF THE MILITARY AS THE "NEW ELITE" OF THE NEW SOCIETY.

15. FOREIGN RELATIONS. WHILE VARIOUS ACTIONS WITH RESPECT MUSLIM MINORITIES PROBLEM HAVE BEEN REPORTED UNDER HEADING OF INTERNAL POLITICAL MATTERS, THEY ARE, IN FACT, AN ASPECT OF PHILIPPINE FOREIGN RELATIONS. DESTRUCTION OF JOLO CITY

AND LOSS OF LIFE IN BATTLES AT JOLO CAME ON EVE ISLAMIC

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SUMMIT MEETING IN LAHORE AND HAD SHARP REPERCUSSIONS THERE, LED BY MALAYSIA AND LIBYA. AFTER LAHORE MEETING, SAUDI ARABIAN FOREIGN MINISTER SQQAF VISITED MANILA AND MADE CLEAR TO MARCOS THAT ARAB OIL BOYCOTT AGAINST PHILIPPINES WAS GENUINE POSSIBILITY IF JOLO INCIDENT REPEATED.

16. MARCOS HAS THEREFORE BEGUN SERIES OF MANEUVERS DESIGNED FORESTALL REPETITION OF THIS CRISIS AT ISLAMIC FOREIGN MINISTERS CONFERENCE SCHEDULED FOR KUALA LUMPUR IN JUNE. IN ADDITION TO DOMESTIC ACTIONS RE MUSLIMS, HE HAS CONCENTRATED UPON EFFORTS TO WORK OUT UNDERSTANDINGS WITH RAZAK OF MALAYSIA, PLAYING HEAVILY UPON MUTUAL PHILIPPINE-MALAYSIAN INTERESTS IN ASEAN. HIS PRIME PURPOSE IS TO ELIMINATE INVOLVEMENT OF TUN MUSTAPHA OF SABAH IN SUPPLYING MUSLIM DISSIDENTS, AND ACTING AS CHANNEL FOR LIBYAN ASSISTANCE. TO THAT END, HE IS PREPARED TO WITHDRAW PHILIPPINE CLAIM TO SABAH AND WORK OUT SOME REGIME FOR ELEMENTS OF ETHNIC AUTONOMY AMONG MUSLIM MINORITY, BUT HE WILL NOT RPT NOT TOLERATE SULU SECESSION, OR ITS MERGER WITH SABAH. PRESIDENT'S NEGOTIATING CARDS ARE VERY LIMITED PARTICULARLY SINCE HE IS NOT LIKELY TO BE PREPARED TO GRANT ANY MEANINGFUL FORM OF AUTONOMY TO MUSLIMS.

17. RAZAK, WHO HAS HIS OWN TROUBLES WITH MUSTAPHA, HAS REFUSED TO BE DRAWN INTO THIS AFFAIR, BUT HAS APPARENTLY GIVEN PRESIDENT SUHARTO OF INDONESIA ENOUGH ENCOURAGEMENT SO THAT LATTER HAS BEEN WILLING TO CONTINUE HIS THANKLESS ROLE AS INTERMEDIARY. AS THIS REPORT IS WRITTEN, MARCOS AND SUHARTO ARE CURRENTLY MEETING IN INDONESIAN TOWN OF MENADO. THIS MEETING CONSTITUTES FIRST TRIP BY MARCOS OUTSIDE PHILIPPINES SINCE 1968.

18. TENSIONS WITH MALAYSIA HAVE ALSO HAD AN EFFECT UPON PACE OF MANILA'S MOVEMENTS TO OPEN RELATIONS WITH THE TWO COMMUNIST SUPERPOWERS. ALTHOUGH IT HAS LONG BEEN ANNOUNCED PHILIPPINE INTENTION TO OPEN SUCH RELATIONS MORE OR LESS SIMULTANEOUSLY, MALAYSIAN ANNOUNCEMENT OF RAZAK'S TRIP TO PEKING AND INTENDED RECOGNITION OF PRC HAS APPARENTLY ACCELERATED PHILIPPINE PACE. MRS. MARCOS EXPECTS TO VISIT CHINA IN NEAR FUTURE AND PHILIPPINE DELEGATION WILL GO TO MOSCOW TO DISCUSS NEGOTIATION OF A TRADE TREATY.

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WHILE THERE IS NO RPT NO PRECISE TIMETABLE FOR THESE MOVES,
THEIR DIRECTION IS INEXORABLE.

19. THESE DEVELOPMENTS HAVE HAD SHARP REPERCUSSIONS IN
TAIPEI, AND HAVE PRODUCED MUTUAL MISSIONS OF SPECIAL
EMMISSARIES BETWEEN THE TWO CAPITALS. GRC IS CURRENTLY
TAKING VERY HARD LINE AND THREATENING TO SEVER ALL RELATIONS
AT ALL LEVELS WITH GOP IF MANILA RECOGNIZES PEKING. ALTHOUGH
TAIWAN WOULD APPEAR TO HAVE FAR MORE TO LOSE THAN PHILIPPINES
BY SUCH INFLEXIBLE STAND, GRC OFFICIALS HAVE SHOWN NO RPT
NO INTENTION OF COMPROMISE AS THIS REPORTING PERIOD ENDS.
ALTHOUGH PHILIPPINES PREPARED WORK OUT VARIOUS INFORMAL
ECONOMIC, COMMERCIAL, TRANSPORTATION, CULTURAL, AND OTHER
ARRANGEMENTS WITH TAIPEI, INDICATIONS ARE THAT MATTERS
HEADINGS FOR CRISIS DURING NEXT QUARTER. THUS, UNLESS
INDONESIAN EFFORTS WITH MALAYSIA ARE MORE FRUITFUL THAN
WE ANTICIPATE, THE PHILIPPINES MAY END THE SUMMER MONTHS
AT ODDS WITH TWO OF ITS THREE CLOSEST NEIGHBORS.

20. U.S.-PHILIPPINE RELATIONS. RELATIONS BETWEEN THE
UNITED STATES AND THE PHILIPPINES CONTINUE TRANQUIL.
ATTENTION ON THE QUARTER UNDER REVIEW HAS BEEN FOCUSSED
UPON WORKING OUT THOSE ADJUSTMENTS WHICH WILL HAVE TO BE
MADE IN THE STATUS AND RIGHTS OF U.S. BUSINESSMEN AFTER
THE EXPIRATION OF THE LAUREL-LANGLEY AGREEMENT ON JULY 3.
MARCOS HAS EASED THE IMPACT OF THIS IMMINENT EVENT CONSIDER-
ABLY BY ISSUING A PROCLAMATION AND A DECREEE ON MAY 24. THE
PROCLAMATION STATES THAT IT WILL BE THE POLICY OF THE GOP
TO REFRAIN FOR ONE YEAR FROM ANY ACTION WHICH WOULD ALTER
THE CURRENT SITUATION WITH RESPECT TO THOSE RIGHTS AND
PRIVILEGES ENJOYED BY AMERICANS UNDER THE PARITY PROVISIONS
OF THE 1946 AMENDMENT TO THE 1935 CONSTITUTION. THIS HAS
SPECIAL EFFECT WITH RESPECT TO LAND TITLES ACQUIRED BY
AMERICANS SINCE 1946. THE DECREE PERMITS LEASES ON LAND
TO BE MADE BY FOREIGNERS FOR 25 YEARS, RENEWABLE FOR
ANOTHER PERIOD OF 25 YEARS.

21. MARCOS HAS ALSO SAID PUBLICLY THAT HE WILL ISSUE DECREES
CLARIFYING THE RETAIL TRADE LAW AND THE ANTI-DUMMY LAW AS
IT APPLIES TO FOREIGN INVESTMENT. THESE SEVERAL ACTIONS,
TOGETHER WITH ANCILLARY STEPS WHICH WE HAVE DISCUSSED WITH
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THE GOP, MEET MOST OF THE IMMEDIATE CONCERNS OF U.S.
BUSINESS. HOWEVER, WE HAVE BEEN UNABLE TO RECIPROCATATE
AND MEET PHILIPPINE INTERESTS IN TARIFF AND TRADE MATTERS
BECAUSE THE U.S. CONGRESS HAS NOT YET PASSED A TRADE
REFORM ACT WHICH WILL GIVE US AUTHORITY TO RESPOND TO
PHILIPPINE INTEREST IN THESE MATTERS.

22. SIMILARLY, WITH RESPECT TO PHILIPPINE INTEREST IN RENEGOTIATING CERTAIN ASPECTS OF THE MILITARY BASE RIGHTS AGREEMENT, WE ARE AT DEAD CENTER BECAUSE WASHINGTON HAS NOT YET DECIDED WHETHER TO INCORPORATE THESE CHANGES IN A TREATY, OR ACCEPT THE IMPLICATIONS OF THE CASE AMENDMENT REQUIRING A JOINT RESOLUTION TO IMPLEMENT AMENDMENTS TO BASE RIGHTS AGREEMENTS. PRESUMABLY, BOTH THESE MATTERS WILL BE UNDER ACTIVE NEGOTIATION IN MANILA DURING THE NEXT QUARTER, IF WASHINGTON DECISIONS CAN BE MADE SOON.

23. ONE OTHER ITEM LOOMING ON HORIZON IN U.S.-PHILIPPINE RELATIONS CONCERNS THE LAW OF THE SEA. THERE HAS ALWAYS BEEN FUNDAMENTAL DIFFERENCE BETWEEN U.S. AND PHILIPPINE POSITION ON ARCHIPELAGO PROPOSALS FOR CARACAS MEETING. RECENTLY, HOWEVER, THESE DIFFERENCES HAVE BEEN AGGRAVATED BY AWKWARD WASHINGTON HANDLING OF TACTICAL PREPARATIONS FOR CARACAS MEETING. A TEAM OF EXPERTS WILL ARRIVE MANILA EARLY JUNE IN EFFORT BRIDGE SOME DIFFERENCES ON THIS ACCOUNT, BUT PROSPECTS FOR RESOLUTION SEEM DISTANT. THIS VISIT, PLUS VISIT OF TEAM TO NEGOTIATE CIVIL AIR AGREEMENT, ALSO IN EARLY JUNE, COULD END IN DIFFERENCES OF POSITION WHICH WILL RUFFLE SMOOTH RELATIONS WHICH HAVE OTHERWISE PRE-VALUED IN U.S.-PHILIPPINE AFFAIRS.

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